

Service Date: November 19, 1980

DEPARTMENT OF PUBLIC SERVICE REGULATION
MONTANA PUBLIC SERVICE COMMISSION

In the matter of the Application of)	UTILITY DIVISION
RONAN TELEPHONE COMPANY for)	
authority to establish increased rates)	DOCKET NO. 80.4.8
for telephone service.)	ORDER NO. 4715

APPEARANCES

FOR THE APPLICANT:

Dennis R. Lopach, Scribner, Huss & Hjort, P.O. Box 514, Helena,
Montana 59601

FOR THE PROTESTANT:

James C. Paine, Montana Consumer Counsel, 34 West Sixth Avenue,
Helena, Montana 59601

FOR THE COMMISSION:

Robert F. W. Smith, Staff Attorney
Eric Eck, Staff C.P.A.

BEFORE:

GEORGE TURMAN, Commissioner & Hearing Examiner
GORDON E. BOLLINGER, Chairman
THOMAS J. SCHNEIDER, Commissioner

FINDINGS OF FACT

PART A

General

1. Ronan Telephone Company (Applicant) furnishes telephone service to the exchanges of Ronan and Pablo, Montana.
2. Applicant's petition, filed April 18, 1980, requests this Commission's approval of rates and charges for telephone service to its Ronan and

Pablo exchange customers; these rates are designed to produce an increase in annual gross operating revenues of \$164,465 based on a historic test year ending December 31, 1979 adjusted for known and measurable changes.

3. On June 30, 1980, the Montana Consumer Counsel (MCC) sought leave to intervene in this Docket. This request was granted by the Commission on July 7, 1980.

4. A public hearing on the application was held at the Ronan Community Center in Ronan, Montana, July 17, 1980 commencing at 10:00 a.m. The hearing was concluded the same day. Applicant presented testimony by Mr. Preston and Mr. Schindler. Five public witnesses appeared in opposition to the rate increase.

5. At the close of the hearing, the parties agreed to submit proposed findings of fact, conclusions of law and order 15 days after Applicant supplied a letter quantifying its 1980 property tax liability. This letter was filed with the Commission and the parties on September 8, 1980, with proposed orders filed on September 23, 1980.

6. The 1979 test year is found by the Commission to be a reasonable period within which to measure Applicant's utility revenues, expenses and returns for the purpose of determining a fair and reasonable level of rates for telephone service.

7. The Applicant is presently involved in a dispute with the Internal Revenue Service regarding investment tax credits; the resolution of this dispute could have a substantial impact on the Applicant's rate payers.

PART B

Rate of Return

8. Applicant proposed the following capital structure and associated costs:

<u>Type</u>	<u>Capital Structure</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	58.03%	9.08%	5.27%
Common Equity	41.97%	15.00%	6.30%
	<u>100.0 %</u>		<u>11.57%</u>

9. MCC proposed the following capital structure and associated costs:

<u>Type</u>	<u>Capital Structure</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-Term Debt	58.03%	9.08%	5.27%
Common Equity	41.97%	12.6 %	5.29%
	<u>100.0 %</u>		<u>10.56%</u>

10. The cost of debt capital is not a contested issue in this case. The cost of long-term debt capital has been determined to be 9.08% by both the Applicant and the MCC. This cost is accepted by the Commission (Exh. 10 (ELS).)

11. Applicant is seeking a 15% return on equity in this proceeding. The contention that such a return is proper is not based on a cost of capital study. Reference was made to economic conditions and the risks involved in operating a small telephone company.

12. MCC requested that the Commission take administrative notice of its return on equity determinations in Docket Nos. 6348, 6496, 6528, 6618 and 6695 as well as a determination of the South Carolina Public Service Commission in a 1979 rate order for Southern Bell Telephone and Telegraph

Company. MCC advocates a 12.6% return which is equal to a recent equity return granted by this Commission to Mountain States Telephone.

13. After reviewing the cost of equity presentations by both parties, the Commission adopts the return of 12.6% advocated by MCC. There is no support in the record in terms of a cost of capital study to support a return of 15%. Furthermore, while other cases are indeed different in various particulars, rate of return is often comparable.

14. Based on the findings for long-term debt and common equity, the Applicant's fair rate of return is found to be 10.56%.

PART C

Rate Base

15. Applicant proposed an average original cost depreciated rate base, with adjustments, of \$1,034,818 (Exh. 9 (ELS).) MCC has presented two adjustments to rate base; (1) a reduction for a 400 line addition to the Ronan central office and (2) a reduction in the amount needed for working capital.

16. Consumer Counsel objects to the inclusion of the 400 line addition because the equipment is not in service in the test year and due to the fact that the Applicant did not include a pro forma revenue adjustment for the new plant. Also, it is mentioned that when senior citizens switch to four-party service it will free up additional lines for new customers.

Applicant presented testimony that the capacity of the existing central office is exhausted and the company has an obligation to provide service to new customers. Based on historic growth rates, revenues associated with the new plant will be minimal, according to the Applicant.

The question of whether to include the 400 line addition is central to a proper rate base determination in this Docket. Both Consumer Counsel and Applicant have presented strong arguments for adoption of their respective viewpoints. The switching of senior citizens to four-party service resulting in additional lines is based on no study and is therefore rejected as speculative. Pro forma revenue associated with the new plant is not developed well enough in this Docket to be used as a rate base determinant.

17. The remaining issue concerning the 400 line addition is that of its not being used in the test year. While this plant is not in use in the test year, it is clear that more capacity is necessary to meet the current needs of the system. An important consideration in the purchase of this addition to plant is the cost saving associated with the equipment. After careful consideration of the issues presented the Commission accepts the addition of \$118,879 as an addition to rate base.

18. Applicant proposed an allowance for cash working capital of \$52,816 (12.5% of adjusted operation and maintenance expenses). Consumer Counsel advocates two adjustments to this allowance; (1) a reduction to reflect the average monthly balance of accrued property taxes and (2) a reduction which reflects one months advance billings.

Proper calculation of working capital must include consideration of both the source and use of funds. There is no evidence that any study was performed by the Applicant which supports the requested allowance for working capital. Both adjustments made by Consumer Counsel are correct and are accepted by the Commission. The amount of working capital included in rate base is calculated as follows:

Operation & Maintenance Expense	\$415,861
Property Taxes	50,330
Total	<u>466,191</u>

at 12.5%	\$58,274
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Less:

Average monthly balance of property tax collections	(25,863)
Advance billings	(17,863)
Working Cash	<u>\$14,548</u>

19. The Commission finds the appropriate net plant in service to be \$975,041.

20. The Commission finds the appropriate allowance for materials and supplies to be \$6,961.

21. From Finding Nos. 18, 19 and 20, the appropriate rate base is \$996,550.

PART D

Operating Expenses

22. Applicant's late filing of property taxes indicates there should be a downward adjustment to proposed property taxes of \$9,649.

23. Applicant proposed rate case expense of \$10,000. Consumer Counsel noted that since rate cases are filed every three to four years, it is appropriate to amortize rate case expense over a three year period. The Commission agrees with Consumer Counsel that amortization is proper and accepts \$3,333 as the appropriate rate case expense.

24. The Commission finds the pro forma earnings under present rates to be:

Operating Revenue	\$597,692
Operating Revenue Deductions:	
O & M	415,861
Depreciation	78,550
Taxes Other than FIT	75,903
Income Taxes (FIT)	-0-
Total Deductions	<u>\$570,314</u>
Operating Income	27,378
Rate Base	996,550
Rate of Return	2.75%

PART E

Revenues

25. Applicant's proposed figure for actual test period operating revenues of \$597,692 is accepted.

PART F

Revenue Deficiency

26. The Commission finds the following:

Rate Base	\$996,550
Allowed Rate of Return	10.56%
Allowed Return	105,236
Return Earned	27,378
Income Deficiency	<u>\$ 77,858</u>
Taxes:	
MT. Telephone License	\$ 1,543
MT. Consumer Counsel	62
MT. Corp. License	5,931
Federal Income	19,524
Revenue Deficiency	<u>\$104,918</u>

PART G

Tariffs

27. Applicant proposes that senior citizens be offered a special four-party residence rate at a reduced cost. The Commission finds the proposed tariffs for senior citizens acceptable.

28. Applicant's Exhibit 7 (JWP), pages 1 through 44, constitute service rules and regulations which Applicant seeks to include in its tariffs on file with this Commission. Pursuant to informal communications with the Commission Staff on November 13, 1980, the Applicant filed a revised page 5 of its tariff. These revisions meet the concerns of the Commission, but so that all parties may have a chance to comment on them, final approval of this page will not be made at this time. The other pages are accepted as filed.

CONCLUSIONS OF LAW

1. Ronan Telephone Company is a public utility operating under the regulatory jurisdiction of this Commission.
2. Pursuant to Section 2-4-601, MCA, the Commission gave all interested persons notice and an opportunity to participate in this proceeding.
3. The rate levels and rate structures approved herein are just and reasonable.

ORDER

NOW THEREFORE, at a session of the Public Service Commission, Department of Public Service Regulation of the State of Montana, held in its offices at 1227 11th Avenue, Helena, Montana, on the 17th day of November, 1980, there being present a quorum of commissioners, there came regularly before the Commission for final action the matters and things in Docket No. 80.4.8, and the Commission being fully advised in the premises;

IT IS ORDERED by the Commission that the Ronan Telephone Company file tariffs consistent with this Order that will yield total revenues of \$104,918. The rates are to be effective upon Commission approval of the tariffs.


IT IS FURTHER ORDERED that should the Commission not hear from any party concerning the Applicant's proposed tariff page 5 as amended within 10 days of the service date of this order, that page will be separately approved by minute entry.

IT IS FURTHER ORDERED that the Applicant shall inform the Commission of any determination of its dispute with the Internal Revenue Service as soon as a decision is made.

IT IS FURTHER ORDERED that a full, true and correct copy of this order be sent forthwith by first class United States mail to the Applicant, and to all other appearances herein.

THE FOREGOING ORDER was adopted by the Department of Public Service Regulation of the State of Montana, Public Service Commission, IN OPEN SESSION at Helena, Montana, this 17th day of November, 1980 by a vote of 3-0.

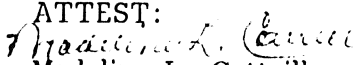
BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.


GORDON E. BOLLINGER, Chairman


THOMAS J. SCHNEIDER, Commissioner


GEORGE TURMAN, Commissioner

ATTEST:


Madeline L. Cottrill
Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38.2.4806, ARM.